FILE

[redacted] 25X1

Central Intelligence Agency

DATE 7/24/86 FILE

DOC NO ALA M 86-20036

OCR 3

P&PD 1

Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

18 July 1986

Mexico: Prospects for GATT Entry and Compliance [redacted] 25X1

Summary

Mexico City is moving toward GATT entry this summer, downplaying longstanding domestic objections to membership. We believe President de la Madrid has decided GATT membership is in Mexico's best interests and, unlike his predecessor in 1979, will push the necessary legislation through the political system, probably allowing little or no further discussion with groups still opposed to its passage. In our judgment, de la Madrid almost certainly is counting on GATT entry to serve as a sign to the international economic community of Mexico's willingness to initiate economic reforms. In return, Mexico is likely to begin pushing for greater access to US markets and new foreign loans.

Mexico City's changing attitude toward the treaty over the past year, in our judgment, stems largely from the realization that the country no longer can depend on petroleum revenues to boost economic growth. [redacted] 25X1 [redacted] most knowledgeable Mexicans agree the country's prospects for economic recovery depend to a large extent on boosting nonpetroleum exports. However, we believe domestic expectations for immediate benefits and trade concessions--particularly in separate bilateral talks with the United States--are unrealistically high. 25X1

Even with domestic support, we expect Mexico will have some difficulty complying with some of the provisions of its GATT agreement, particularly elimination of its controversial official pricing system. In addition, although Mexico City seems positively inclined toward the treaty, the process could still be sidetracked if debt negotiations with the IMF or international bankers become stalemated. A rebuff from the international financial community would precipitate a nationalistic reaction within Mexico, making it more difficult for the President to sell GATT membership. [redacted] 25X1

This memorandum was prepared by [redacted] the Office of African and Latin American Analysis. Information available as of 18 July was used in its preparation. Comments and queries are welcome and may be directed to the Chief, Mexico Branch, Middle America-Caribbean Division, [redacted] 25X1

ALA M 86-20036

[redacted] 25X1

[redacted] 25X1

25X1

Laying the Groundwork

At the beginning of his term in office, President de la Madrid provided clear signs of his seriousness about liberalizing Mexico's protectionist trade regime to make Mexican goods more competitive internationally. The President's official and publicly proclaimed program hinged on eliminating regulatory barriers, maintaining a competitive exchange rate, and moving toward entry into GATT to obtain more favorable terms from Mexico's major trading partners. His trade initiatives also projected a move from import licensing to tariffs, which he eventually planned to reduce in compliance with GATT regulations. 25X1

During his nearly four years in office, the President has made progress, but it has been forged as much by outside pressure as by voluntary action. Pressure from the IMF caused de la Madrid to eliminate some of the more onerous regulations imposed by former President Lopez Portillo. Permit requirements have been discontinued for about 90 percent of exports, and most export tariffs have been reduced or eliminated. Further compelled by the IMF, the President announced in early 1985 that Mexico would liberalize its import regime by removing import license requirements for a number of products. This was followed up in July 1985 by the elimination of licenses for 90 percent of all import items. 25X1

A need to compensate for falling oil export revenues over the past year added impetus to de la Madrid's nonpetroleum export drive, according to the US Embassy. In November 1985, he announced Mexico would begin serious negotiations with GATT member countries in preparation for entry this summer, in time to participate as a full member in a new round of negotiations to be launched in September in Uruguay. De la Madrid moved quickly to consolidate support for entry within the National Chamber of Deputies, despite complaints from Mexico's national labor union and private business organizations. The President also publicly affirmed that Mexico was negotiating a $500 million World Bank trade liberalization loan that would be contingent largely on GATT entry. These announcements were accompanied by moves to make Mexico's exchange rate more competitive, a verbal commitment to begin removing official reference prices on imports, and tariff reductions on a number of items. 25X1

Marketing GATT Domestically

Anticipating a negative reaction from domestic labor and some business organizations, President de la Madrid and Commerce Secretary Hernandez over the next several weeks probably will try to manipulate public opinion by spearheading a nationwide campaign to highlight the benefits of joining GATT and concessions obtained in negotiations. They are likely to point out that entry in August would allow Mexico to join other developing nations this fall in pressing for greater access to developed country markets. Mexico City already has joined a 'Group of 20' developing countries in formulating an agenda for the upcoming trade negotiations, providing further evidence of Mexico's intention to join. Secretary Hernandez also is likely to stress that Mexico City successfully argued for developing nation status and special protection for the country's agricultural and energy sectors. 25X1

We also expect Mexican officials to soften resistance to GATT entry by domestic industries by committing the government's help to ease the transition. Some evidence of such a commitment is already occuring. Mexico City has publicly announced it will spend almost $5 billion dollars as part of a concerted effort to promote exports of nonpetroleum

25X1

[redacted] 25X1

products. According to Secretary Hernandez, the program will concentrate on loans to increase production, export competitiveness, and imports of raw materials and industrial equipment. The Commerce Secretary also has vowed to reduce or remove taxes and duties that make Mexican products less competitive abroad. Changes in foreign exchange rules also are slated to allow exporters to use 100 percent of the foreign currency earned from sales to pay for imports. [redacted] 25X1

We believe President de la Madrid almost certainly will meet privately with prominent business leaders concerned over GATT entry to allay fears their companies may be shut down by competition from cheaper foreign products. He is likely to stress that Mexico City will continue to apply taxes and surcharges on imports that directly compete with domestic goods. We expect the President also will promise to push for justification under GATT regulations for import quantity restrictions in areas where companies become threatened. [redacted] 25X1

Prospects for Passage

There appear to be no major obstacles to joining GATT this summer, according to a wide variety of US Embassy sources. [redacted] 25X1 Now that GATT members have signed the agreement, Mexico City will have until 15 August to declare its readiness to join. We believe, [redacted] 25X1 that Mexico City probably will sign the agreement next month in order to 25X1 become eligible to participate in the upcoming round of trade negotiations. President de la Madrid plans to request immediate ratification of the agreement by the national Chamber of Deputies when it reconvenes on 1 September. [redacted] 25X1

Mexico's change in attitude toward GATT entry over the past year [redacted] 25X1 stems largely from the realization that the country no longer can depend 25X1 on petroleum revenues to boost economic growth. In 1979, in the midst of an oil boom, former President Lopez Portillo could easily afford to declare Mexico's prospective GATT protocol unacceptable because it would impinge on the country's ambitious development plans. 25X1 Now, however, de la Madrid has stated Mexico's prospects for development depend almost exclusively on boosting sales of nonpetroleum products. With domestic demand plummeting in the midst of a major recession, Mexican businessmen have told US Embassy officials that they have little alternative but to seek foreign markets for their goods. [redacted] 25X1

Even though many Mexican entrepreneurs have complained that the President has moved more rapidly than expected, local business leaders, in general, support entry into GATT. The strongest private sector support for GATT membership comes from the large manufacturers in Monterrey, Mexico's biggest industrial city. Many are operating well below capacity and are counting heavily on government export loans and the opening of new overseas markets. On the bilateral front, we believe that a number of companies are depending on GATT entry to help gain favorable trade concessions from Washington. Opposition to entry by small and medium size firms in the agriculturally-based Guadalajara area may have been at least partially neutralized by strong language in the GATT agreement protecting Mexico's agricultural sector, according to the US Embassy. [redacted]

25X1

[redacted] 25X1

[redacted] 25X1

Complying With Tough Entry Terms

President de la Madrid has agreed to a much stricter interpretation of GATT principles than his predecessor, Lopez Portillo, had negotiated in 1979. [redacted] 25X1 [redacted] Mexico City agreed to drop its demands for special concessions when 25X1 government officials became convinced that holding out would delay entry past the August deadline for participation in the next negotiating round. Even though Mexico City initially pushed for broad exceptions to GATT rules for nine of Mexico's economic sectors, [redacted] Mexico eventually accepted the standard terms of accession, 25X1 with exceptions only for agriculture and energy. The only other concession Mexico gained, [redacted] was specific note of the 25X1 country's present status as a developing country. This allows Mexico to apply quantitive restrictions on imports if they threaten domestic industries, the country's foreign reserve position, or implementation of the government's National Development Plan or its sectoral and regional programs. [redacted] 25X1

In our judgment, Mexico City probably will attempt to comply with most of the basic terms required of GATT members. Mexico will find it relatively easy to stay within the 50 percent tariff ceiling imposed by the accession agreement--most of the country's tariffs already are at or below this level. The government already has gone far toward reducing the number of items requiring import permits. We believe, on the basis of US Embassy [redacted] reporting, Mexican Government officials probably will argue that the 25X1 remaining permits--controlling about one-third of the value of total imports--are needed to protect domestic industries from excessive competition. Mexico almost certainly will take advantage of the extended time period--until 1990--allotted to reduce taxes and surcharges on imported goods. [redacted] 25X1

Despite a general willingness to conform to GATT regulations, de la Madrid will have difficulty making progress in some areas. In our view, Mexico City is unlikely to keep its reluctant promise to eliminate its controversial official pricing system--a mainstay of the government's import restriction policy--over the next 18 months. The government still depends greatly on official prices to keep imports from undercutting domestic industries, and has indicated to local businessmen that it will continue to use pricing yardsticks, according to the US Embassy. By the same token, the six-month time limit agreed to for adherence to four nontariff barrier codes (licensing, customs valuation, antidumping, and standards) and to initiate negotiations for accession to the code for subsidies and countervailing duties, in our judgment,will be difficult for the government to meet. Domestic business demands for subsidies and customs protection almost certainly will cause officials to continue practices in these areas that are contrary to GATT principles. [redacted] 25X1 [redacted] 25X1

The Downside Risks

Mexico City, even at this late stage, still could change its mind at the last moment and refuse the GATT entry offer presently being voted on by member countries in Geneva. Should negotiations with the IMF or international bankers be stalemated, Mexico probably would be tempted to use GATT entry as a negotiating pawn. De la Madrid almost certainly would argue that Mexico could not be expected to proceed further with import liberalization without inflows of new money to finance the resulting increases in foreign purchases. A final rebuff from the international financial community probably would precipitate a nationalistic reaction within Mexico, making it exceedingly difficult for the

[redacted] 25X1

[redacted] 25X1

President to be seen as submitting the Mexicans to the dictates of the developed countries--particularly the United States--by joining GATT. In such a case, de la Madrid could choose to throw the issue open for public discussion--as Lopez Portillo did in 1979--encouraging groups within Mexico to publicly oppose GATT entry. [redacted] 25X1

Implications for the United States

If de la Madrid does proceed with plans to join GATT, he is likely to present Mexico's membership to foreign creditors and government officials as a significant sign of his country's seriousness about economic reform. [redacted] 25X1

Mexico City almost certainly will use GATT entry to push for greater access to US markets. Officials are likely to argue that US pressure to accede to GATT will impose a net burden on Mexico and that it, therefore, should be compensated for reversing its trade policies. Mexican negotiators probably will try to capitalize on US interest in Mexico's GATT entry by pushing for liberalized treatment of Mexican exports of winter vegetables and fruits, a relaxation of restrictions on meat and textile shipments, or improvement in the US GSP program, especially in the competitive need limitations. [redacted] 25X1

[redacted] 25X1

Distribution:
Original - A. Hughes (Commerce)
1 - D/DCI-DDCI Executive Staff
1 - DDI
1 - O/DDI, Shirley Burch
1 - LA/NIO
1 - A. Vila, Commerce
1 - M. Coile, Commerce
1 - C. Klein, USTR
1 - T. Bennet, USTR
1 - N. Lee, Treasury
1 - NIC/AG
1 - PDB Staff
1 - C/DDI/PES
1 - DDI/CPAS/ISS
1 - D/ALA
1 - ALA/PS
1 - ALA/Research Director
1 - CPAS/IMC/CB
1 - D/OGI
1 - C/SRD/OGI
1 - C/PRB/OGI
1 - C/MCD
3 - C/MX
1 - MX Files

ALA/MCD/Mexico/[redacted] 18Jul86 [redacted] 25X1

25X1